
THE ART OF ENQUIRY: A GUIDE FOR AUDITORS ON ASKING QUESTIONS



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About this publication

This publication is part of a series which has been developed to assist auditors build the on-the-job skills needed to competently and confidently interact with clients, obtain information in an efficient, professional manner, and escalate relevant information within the audit team.

This publication focusses on developing the questioning skills required to fulfil an auditors professional obligations.

The publication is intended to supplement each firm's own training, rather than as a substitute for it. It should be read, and applied, in conjunction with the relevant auditing, accounting, and professional and ethical standards. It provides non-authoritative guidance.

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INTRODUCTION

OVERVIEW OF THE GUIDE FOR ENGAGEMENT PARTNERS, AUDIT MANAGERS AND SUPERVISORS

This guide has been developed to help you train your audit team to ask questions that demonstrate the exercise of professional scepticism – a skill considered by many as the cornerstone of audit quality.

While there is no substitute for on-the-job-training to provide auditors with the skills and knowledge to apply professional scepticism, this guide provides a number of useful tools to help supplement the supervision and review you provide your audit team. It contains guidance, a decision tree and 'cheat sheets' for specific audit sections.

OVERVIEW OF THE GUIDE FOR NEW AUDITORS

The purpose of this guide is to help you develop the skills you need to ask the right questions, in the right ways, at the right time. You are the engagement partners 'eyes and ears' on the audit engagement and will generally spend the most time working at the client premises. Because of this you are best placed to pick up on any signals that may indicate an audit issue that should be followed up. To do this you will need to be able to articulate your questions purposefully, and consider responses carefully, with an attitude of professional scepticism.

In this guide we will take you through the key steps in formulating questions, provide the Top 10 audit questions and a number of tips to help you refine your questioning skills.

WHAT IS THE ART OF ENQUIRY?

The art of enquiry is the ability to ask a question in a way that invites an open, honest and verifiable response. This skill lies at the heart of the audit profession. As the independent auditor, it is critical that you are able to obtain, and process, information in a way that contemplates a broad range of options. This is what is known as 'professional scepticism'.

GUIDANCE ON ASKING QUESTIONS DURING AN AUDIT

If you have previously worked in a customer or client-facing role, you will have undoubtedly developed some useful questioning skills. The next step is to apply these skills in the audit context. The table below outlines key principles for asking questions during an audit together with an explanation for each principle.

Principle	Explanation
Ask open-ended questions	In general, the broader and more open the question you ask, the more information you will obtain from your client. Open questions make no assumptions and encourage discussion with your client.
Be aware of your own judgemental biases in framing questions	Whether we are consciously aware of it, or not, we all apply judgemental biases to each decision we make. It is important to be aware of how these judgemental biases impact on how we frame our questions and how we process the responses. Judgemental biases include confirmation, anchoring and availability . Refer to the Art of Problem Solving guide for further information on these judgemental biases and the two problem solving strategies of divergent and convergent thinking.
Follow up a question with another question	The best question is often not the first question, but the follow up question. Stay alert to any interactions that may indicate an issue worth following up, whether it be fraudulent financial reporting, suspicious transactions, system changes or unusual behaviour from your client. Make a conscious effort to follow up on these signals by asking more probing questions. Pass the information gained from these enquiries on to your audit team, particularly where you still feel uneasy about the client's response.
Frame your questions neutrally	Given our judgemental biases, it is important to frame questions as neutrally as possible to avoid leading your client into a pre-determined response, or making them feel like they are being accused. For example, if you are asking about segregation of duties over cash receipts it is better to ask <i>'could you briefly outline the cash receipting process?' than the more direct approach 'two people open the mail to ensure that there is appropriate segregation of duties, right?'</i> It is important to be aware of your own personal judgemental biases and self-check that your question does not lead your client down a certain path by making assumptions based on readily available information or your current starting point (ie last year's closing balance or the budget).

KEY STEPS IN FORMULATING A QUESTION

Asking a question involves a number of key steps, including the thinking undertaken in formulating the question, assessing the responses and asking any follow up questions. It is really important that you think about the information you are trying to obtain before approaching the client to ask the question.

Below are some tips for each step within the questioning process. The decision tree that follows guides you through this process and can be useful to take along to the client site with you.

Before you go and see the client ask yourself:

- **Do I know what I am asking for?**
 - Often your client will not think like an auditor or use phrases used in auditing standards or audit methodology. It is therefore essential to ask questions using plain English and use phrases that your client is familiar with. For example, if you ask your client if they are aware of any new commitments, chances are they will say 'no' as they may not fully understand what you are asking. On the other hand, if you ask them whether they have entered into any new leases they are likely to understand and you will obtain more relevant and useful information.
- **Do I know why I need it (ie what this evidence may, or may not, prove)?**
 - Use the cumulative knowledge from within your audit team to help you understand how the information you are asking for is likely to contribute to the audit process.
 - Read prior year system notes and relevant industry information to help build your understanding. Keep an open mind that there may have been change and that your client may not naturally follow the industry norm in certain areas.
- **Am I aware of possible responses to my question and the best way to respond to each of these?**
 - Have a think about potential responses to ensure you are not put on the spot by an unexpected response of left unsure of whether a satisfactory response has been provided.
- **Do I know who to ask?**
 - The best question may be totally wasted if you ask the wrong person. Your supervisor may be able to help in confirming who the best person to approach for each audit section will be. If in doubt, you can always ask the client at the outset whether they are the right person, and, if not, if they can let you know who is.
 - It is useful to know a little bit of background about the person you are approaching, such as how long they have been in the role, and what their approach in responding to auditors has been.

Useful follow-up questions:

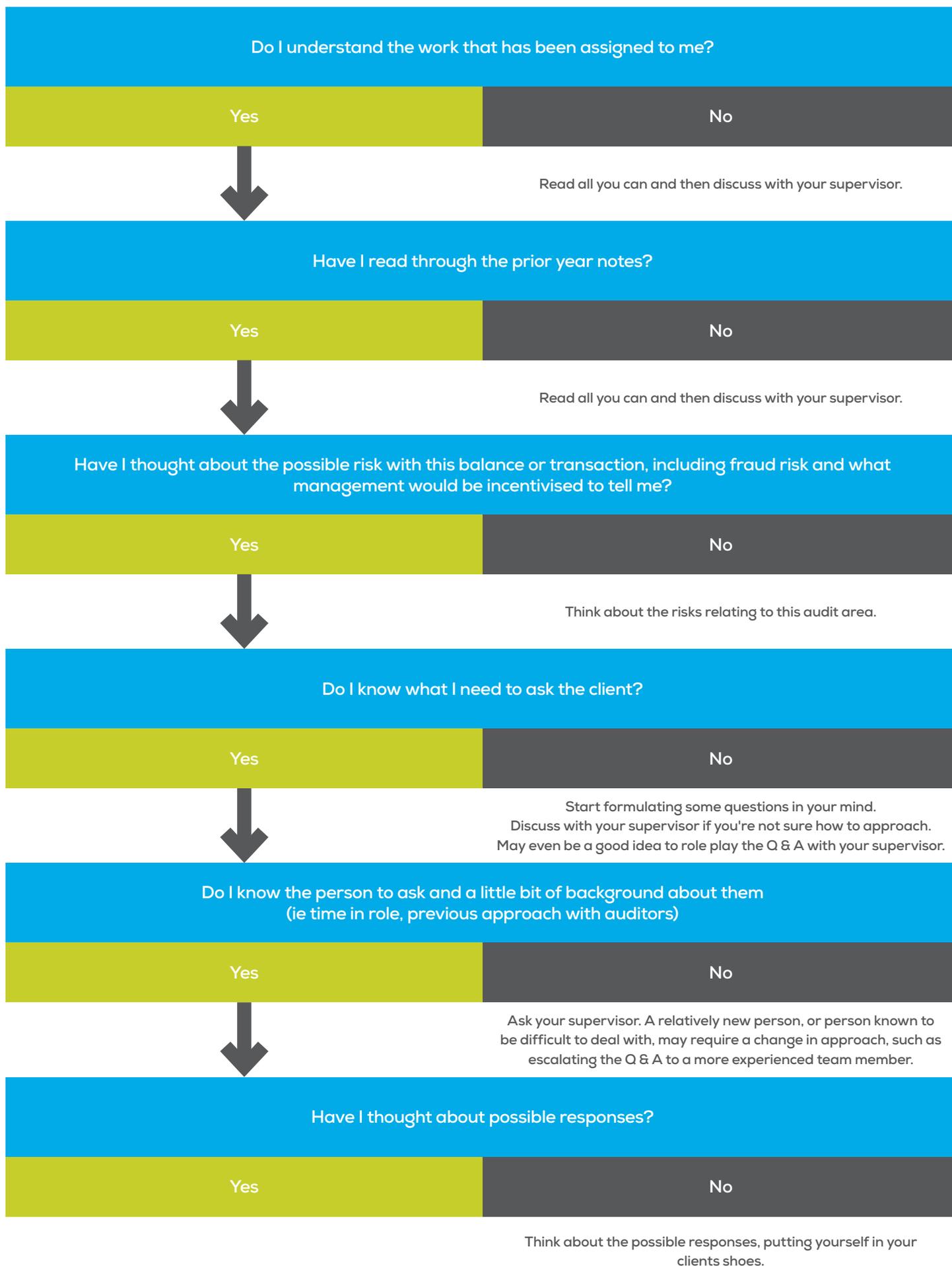
- Can you walk me through that?
- Can you demonstrate that? (These questions are particularly useful when you are unsure whether what you have just been told presents an issue or not, or how the system they have described would operate in practice).
- Can you show me the documentation which supports that?
- What makes you feel comfortable that these controls always operate as you describe?

NOTE: The Top 10 audit questions on page 6 provide additional follow-up questions.

Once you receive the response, or audit evidence, ask yourself:

- Is this relevant?
- Is this reliable?
- Is this complete?
- Is this consistent with other information the audit team has obtained during the audit, and in prior years? [Note: you may not be aware of all the other information your audit team has obtained and may need to ask your team. This is particularly important for related accounts such as revenue and debtors or expenditure and creditors].
- Is this consistent with what is happening in the wider economy or the client's industry (ie does it make sense)?

ASKING A QUESTION DECISION TREE



TOP 10 AUDIT QUESTIONS

Question	Explanation
1. How's your day been going?	Nice open question which can be used as an ice breaker. Pay attention to the response (the client may say they are having a bad day or are very busy) and be sensitive to the person's day/mood when asking your questions.
2. What happens when you're away? (ie who covers for you, and/or who does your work?)	This is a useful question to ascertain whether there is any oversight of an individual's role, a second set of eyes that would pick up on any irregularities.
3. What happens when issues are identified?	It is useful to start from the presumption that issues and irregularities will be identified. It is good practice to follow up on issues and irregularities, to identify the root cause. Ideally you would like the client to provide evidence that they routinely follow up on issues.
4. Can you provide me with evidence to support that?	The objective of an audit is to obtain sufficient appropriate evidence to formulate and support the audit opinion. As a result you will need to obtain suitable documentary evidence and information from the client. Unsupported assertions do not provide sufficient appropriate audit evidence and you are likely to end up with an unhappy supervisor and lots of review notes.
5. Could you demonstrate that for me / explain that to me / clarify my understanding?	It is important to clarify your understanding – do not be afraid to do so. You will feel sillier if you pretend to understand, then cannot explain it to your supervisor later on.
6. What day is your pay run (or month end)?	In general, there will be periods of time when the finance team's focus will be on ensuring that the pay run, or month end, can run smoothly. It is good to find out when these times are so that you can plan around them.
7. Can you tell me about any management incentive plans / bonus schemes / compensation arrangements that are in place?	This is a useful question to find out about any incentives in place that may encourage management to manipulate the financial statements to achieve financial reward.
8. How long have you worked here?	High turnover can be symptomatic of poor staff morale or underlying issues in the overall control environment which may have an impact on the audit team's ability to rely on the effective operation of controls. If your client starts telling you about how long they've been with the organisation they are also likely to tell you the background of other staff members which can also help to develop your understanding of the client environment.
9. What's the culture like working here?	The culture at an organisation is instrumental in influencing the types of behaviour that are considered acceptable. In addition, there is a risk that low morale and disgruntled employees may increase the risk of unethical actions, in some cases even fraud, as employees find it easier to justify or rationalise their actions.
10. Have there been any changes to the system you use for this process or to the steps and approvals for this process?	This is a useful prompt for acknowledging that systems and processes change and it is not appropriate to assume otherwise.